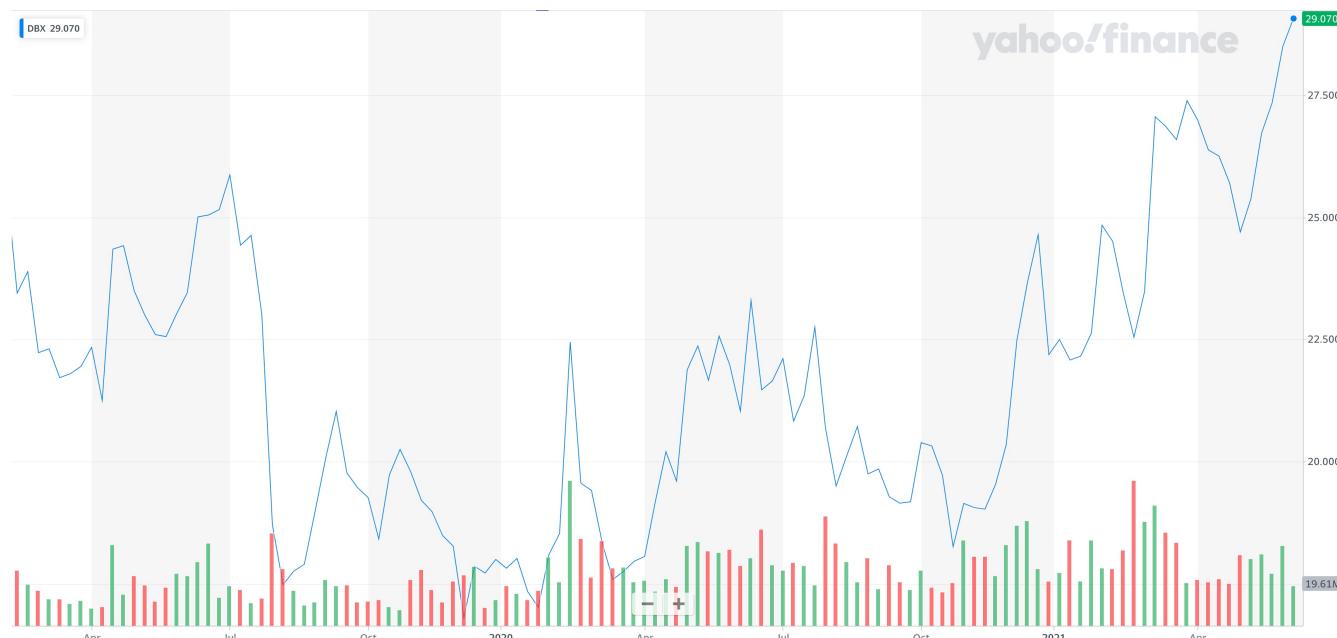
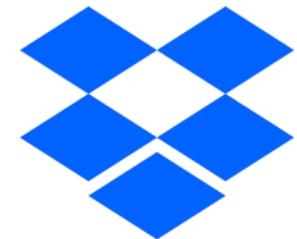




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Dropbox, Inc. (DBX)

2021 Summer Conference Pitch



Daniel Kim

June 13, 2021

Overview

Inflection Point in a Growing Industry

- **Dropbox (NASDAQ: DBX)**, founded in 2007, provides a cloud storage service that allows individuals save files online and sync them to various devices
- DBX uses its cloud storage service to benefit the work environment
- DBX has seen a faster growth after COVID-19 as more individuals and businesses needed cloud storage

Reason Mispriced

- Recent acquisitions, such as HelloSign and DocSend, add value to its product and may lead to higher paying users growth
- The effect of the activist hedge fund, Elliott Management, that recently bought into DBX could achieve long-term benefits for shareholders
- Transition from individuals to larger institutions as its main clients provides bigger, stable income

NASDAQ: DBX	Units
Price (as of 06/09/2021)	\$29.72
Diluted Shares Outstanding	414.3 M
Market Cap	\$11.27 B
(-) Cash	\$1.12 B
(+) Debt	\$1.61 B
(+) Preferred and Other	—
Enterprise Value	\$11.76 B

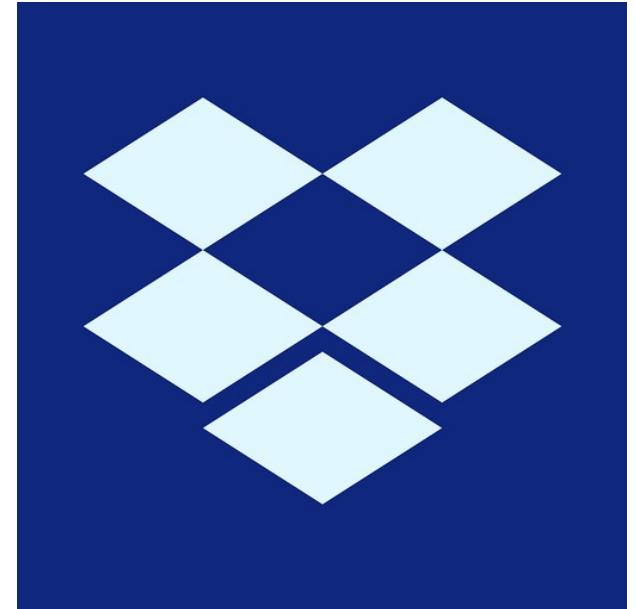
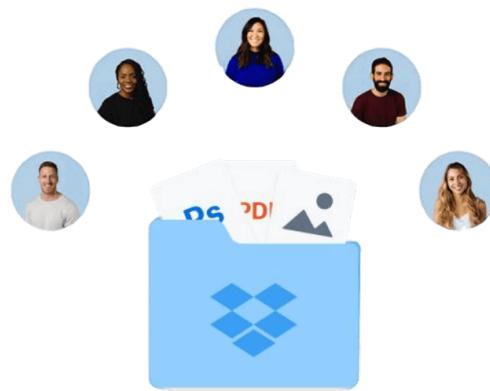
Key Financials / Multiples

EV / Sales	6.1x
EV / EBITDA	27.9x
P / FCF	N/A
P / E	N/A
<i>Gross Margin</i>	78.6%
<i>EBIT Margin</i>	-14.47%
<i>EBITDA Margin</i>	-3.96%

Business Overview

Facts About Dropbox

- Founded in **2007** by **Drew Houston** and **Arash Ferdowsi**, DBX is one of the leading cloud storage services that lets people save and access files online
 - **1.2B+** files are uploaded to DBX daily
 - **35B+** Microsoft Office files are stored on DBX
- **Freemium** business model for two main groups:
 - **Personal:** Basic (free), Plus, and Family
 - **Business:** Professional, Standard, Advanced, and Enterprise
- In addition to its **Cloud Storage** service, DBX also provides **Smart Workspace** service
 - **500K+** teams use DBX Business
 - **97%** of Fortune 500 companies use DBX, **56%** of which are paying users



- **700M+** registered users
- **550B+** pieces of content
 - **15.48M** paying users
- **80%** of subscribers use DBX for work
- **180 countries** have people who use DBX

Business Overview

Subscription Plans of Dropbox's Cloud Storage Service

Personal	Basic	<ul style="list-style-type: none">▪ 2 GB of storage, basic Dropbox products, 30 day version history, HelloSign eSignatures, etc.	Free
	Plus	<ul style="list-style-type: none">▪ 2 TB of storage, everything in Basic, passwords, vault, Smart Sync, full text search, etc.	\$11.99 / month \$119.88 / year
	Family	<ul style="list-style-type: none">▪ 2 TB of storage, everything in Plus, up to 6 users, Family Room folder	\$19.99 / month \$203.88 / year

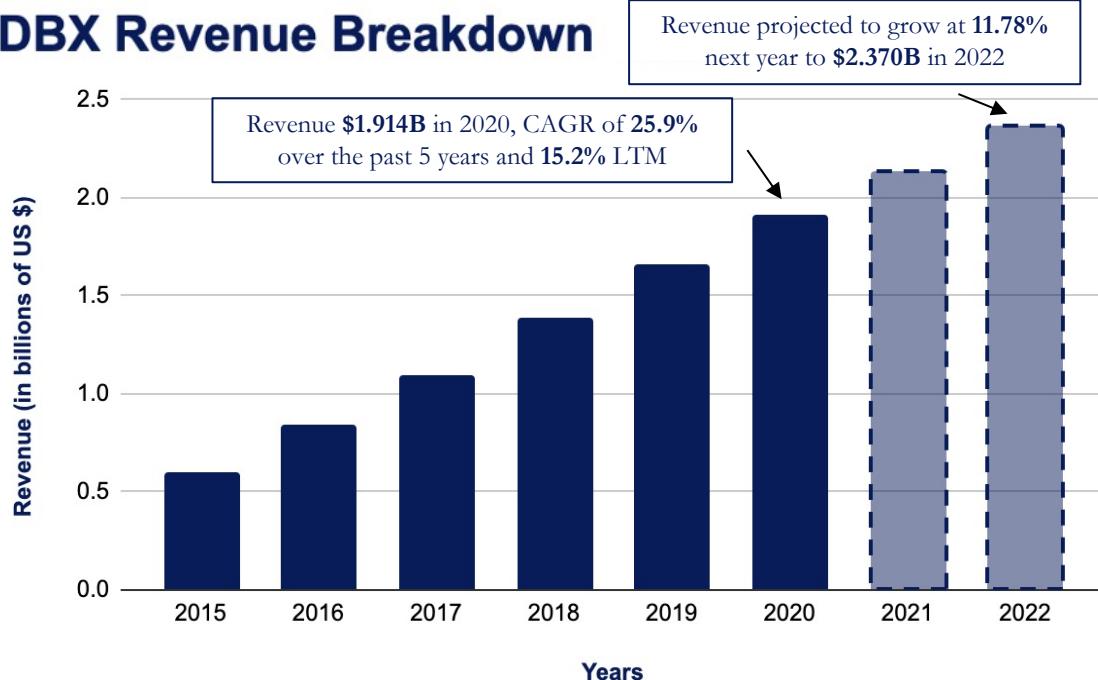
Business	Professional	<ul style="list-style-type: none">▪ 3 TB of storage, everything in Plus, auto OCR, image search, 180 day version history, etc.	\$19.99 / month \$199.00 / year
	Standard	<ul style="list-style-type: none">▪ 5 TB of storage, everything in Basic, Dropbox Rewind, shared link controls, team folder, etc.	\$15.00 / user / month \$150.00 / user / year
	Advanced	<ul style="list-style-type: none">▪ As much storage as needed, everything in Standard, premium previews, viewer history, etc.	\$25.00 / user / month \$240.00 / user / year
	Enterprise	<ul style="list-style-type: none">▪ As much storage as needed, everything in Advanced, network control, etc.	Negotiated Pricing

Business Overview

Revenue + Business Segments

- Revenue Breakdown
 - Gross margin of **78.4%** in 2020, **4.2%** increase from **75.2%** in 2019
- Geographic Segmentation
 - Users in **180** different countries
 - US accounts for **52.3%** of revenue; international accounts for **47.6%** of revenue
 - **No country** outside the US generates **>10%** of revenue
- Market Segmentation
 - Out of **700M** registered users, **15.48M (2.21%)** are paying users
 - **ARPU** for 2020 was **\$128.50**, **4.41%** increase from the year prior
 - No customer accounts for **>1%** of DBX's revenue

DBX Revenue Breakdown

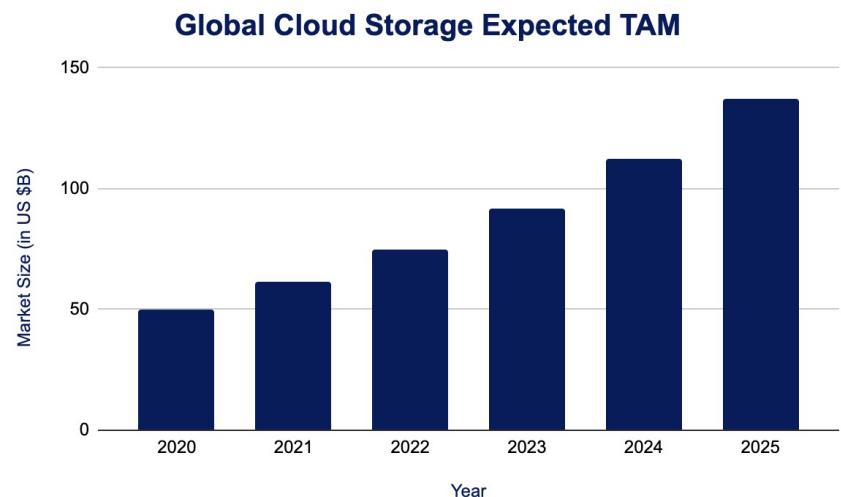


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Industry Overview

About Cloud Storage Industry

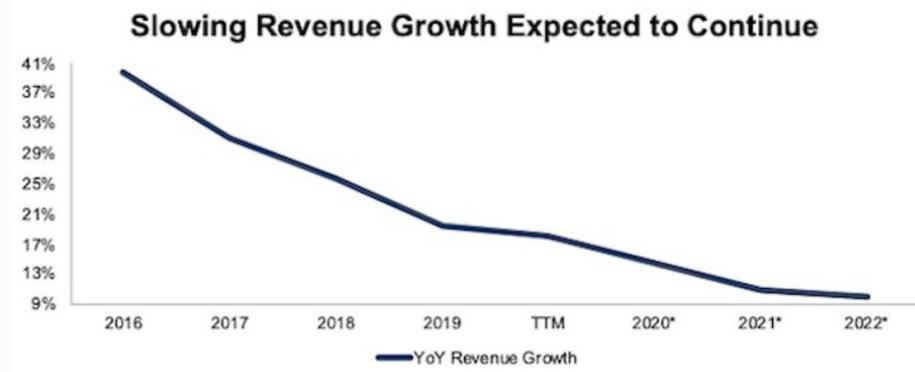
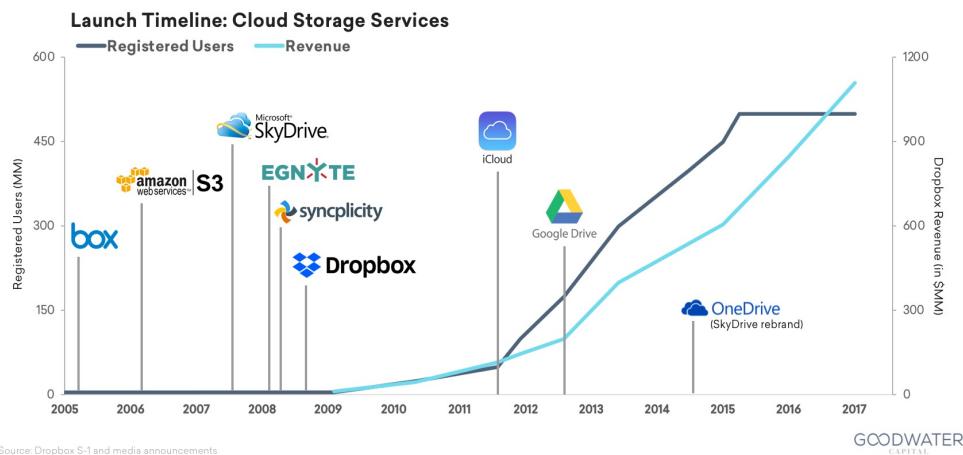
- Global cloud storage market is a **fast-growing industry** with huge opportunities
 - In 2020, the **total addressable market** of the industry was **\$50.1B**
 - Analysts projects the industry to reach **TAM** of **\$137.3B** by **2025**, at a **CAGR** of **22.3%**
 - **North America** is the largest region, while **Asia-Pacific** would exhibit highest **CAGR** of **25.6%** during 2020-2027
- DBX is highly exposed to **global digital signature market** through its acquisitions of **HelloDoc** and **DocSend** is
 - In 2020, the **TAM** of the market reached **\$2.8B**
 - It's projected to grow to **\$14.1B** by **2026**, at a **CAGR** of **31.0%**
 - **DocuSign** is the industry leader with **75.08%** of market share
 - Before acquisition, **HelloDoc** and **DocSend** in total share ~**3%** of the industry



Industry Overview

Market Share & Competition

- Cloud storage market is a **highly competitive field** with many major players
 - Google Drive, OneDrive, iCloud, Amazon Cloud Drive, and Box are some of the major competitors
 - Major tech companies, such as **Apple** and **Google**, jumped into the industry after witnessing successes led by **DBX**
- Increasing competition has slowed down the revenue growth for DBX
 - YoY revenue growth rate of **25.7%** (2018), **19.4%** (2019), **15.2%** (2020)

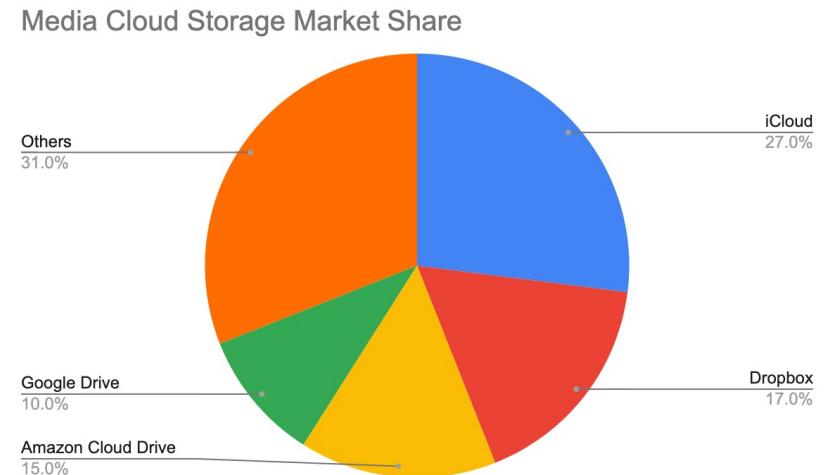
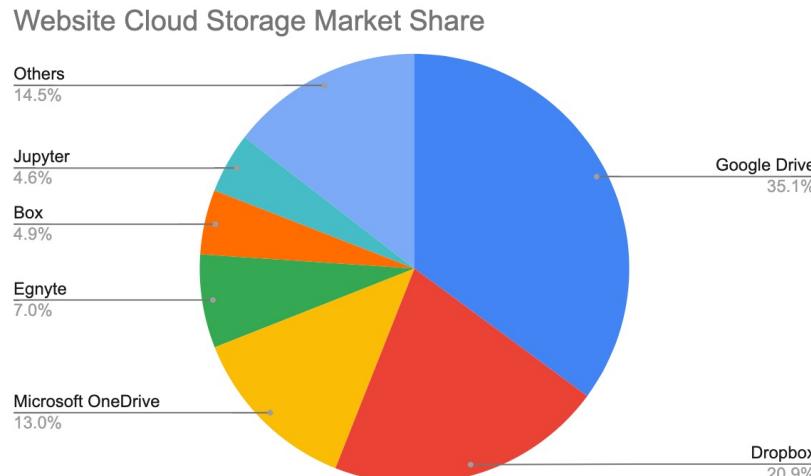


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Industry Overview

DBX's Market Share in its Industry

- DBX's share of the **Global Cloud Storage Market** has fallen from **4.4%** in **2017** to **3.6%** in **2019**
 - Although in a falling trend, DBX still has the **largest customer base** within just Cloud Storage
- DBX's market share in Cloud Storage Industry:
 - DBX is the **second largest** and holds **20.88%** of Website Cloud Storage Market
 - DBX is the **second largest** and holds **17%** of Media Cloud Usage Market
 - DBX is the **fourth largest** and holds **18%** of Personal Cloud Usage Market



Industry Overview

COVID-19 Impact

- With global lockdowns, COVID-19 forced organizations to move to cloud environment to cope with the crisis.
 - In 2020, **90%** of the organizations across the globe have initiated work from home policy
 - Led to an all time high remote workers
 - Projected **CAGR** growth rate of the industry increased by **13.9%** due to COVID-19
- Outside cloud storage market, DBX has established **deep integration partnership** with many companies who became the “winners” during the pandemic
 - Includes **Zoom, Slack, Salesforce, Adobe, etc.**

Google

slack



ATLASSIAN

BetterCloud

Adobe

Microsoft

salesforce



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Potential Thesis I – Past/Future Acquisitions

Recent Acquisitions Added Value to its Product

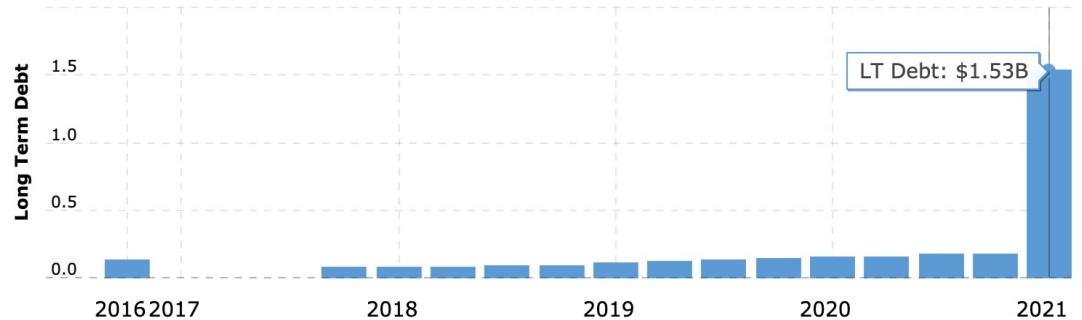
- DBX has used **M&A** to build on its success of its core experience and expand into adjacent market to deliver better experience for its users
- In January 2019, DBX announced it has acquired **HelloSign**, an easy-to-use eSignature and document workflow platform with **80,000+** customers at the time of acquisition
 - DBX agreed to pay **\$230M** in cash for this deal
 - Allows business users of DBX to more effectively sign documents/complete forms online
 - Helps DBX penetrates into **\$2.8B global digital signing** market
- In March 2021, DBX announced it has acquired **DocSend**, a secure document sharing and analytics company with **17,000+** customers
 - DBX agreed to pay **\$165M** in cash for this deal
 - Adds values to DBX for business leaders; used to close business deals, onboard customers, share sensitive financial documents, etc.



Potential Thesis I – Past/Future Acquisitions

Large Cash Holdings; Achieving a Higher ROI with M&A

- By the end of 2020, DBX carried a very conservative, high-cash balance sheet
 - On Dec. 2020, DBX held **\$1.12B** in cash equivalent + short-term investments and only had **\$171.6M** in long-term debt
- In Feb. 2021, DBX successfully raised nearly **\$1.4B**, including the exercise of the related overallotment options through a zero coupon convertible debt offering
- With this transaction that strengthened DBX's balance sheet, DBX aims to support organic growth initiatives, return capital to through share repurchases, and **pursue M&A**
 - “we'll continue to be disciplined with our capital while still making thoughtful ROI-based investments” – Drew Huston, CEO of DBX
 - With limited upside existing in the cloud storage service market, DBX could deliver attractive ROI to its shareholders through undervalued M&A in the future years

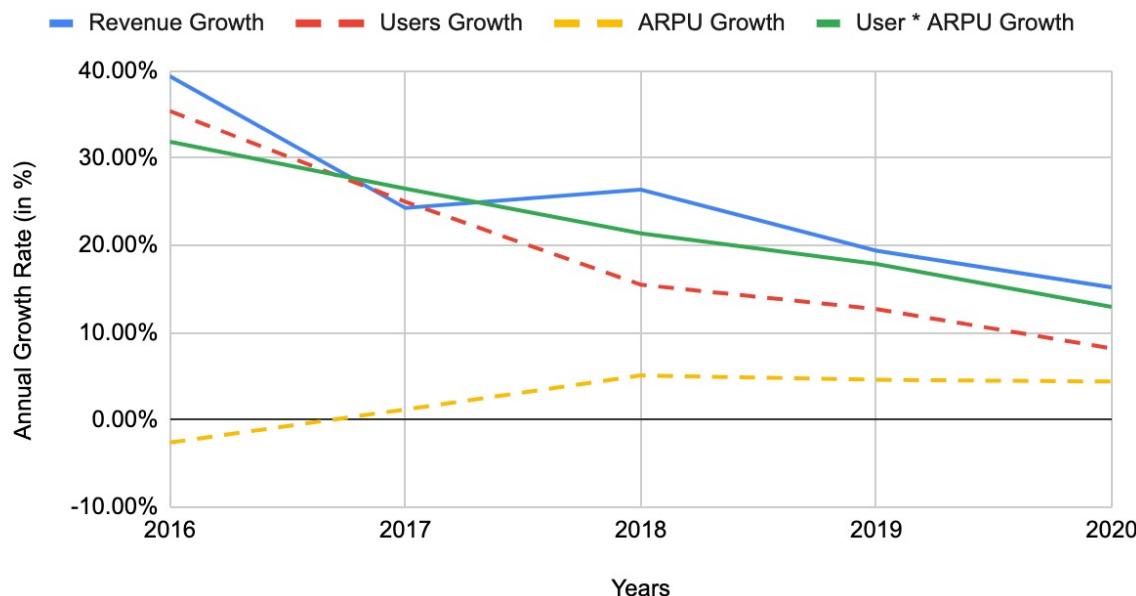


Potential Thesis I – Past/Future Acquisitions

Attract & Retain Users through Acquisitions

- Newly added features to DBX, facilitated through acquisitions, impact two very important numbers for the company: **# paying users** and **ARPU**
 - Developing and offering new products/features through M&A could drive future user growth and retain paying users
 - Enhancement of the service also allows DBX to continuously grow **ARPU**
- Increase in # paying users * higher ARPU → **Revenue growth** in the future

DBX Growth Rates

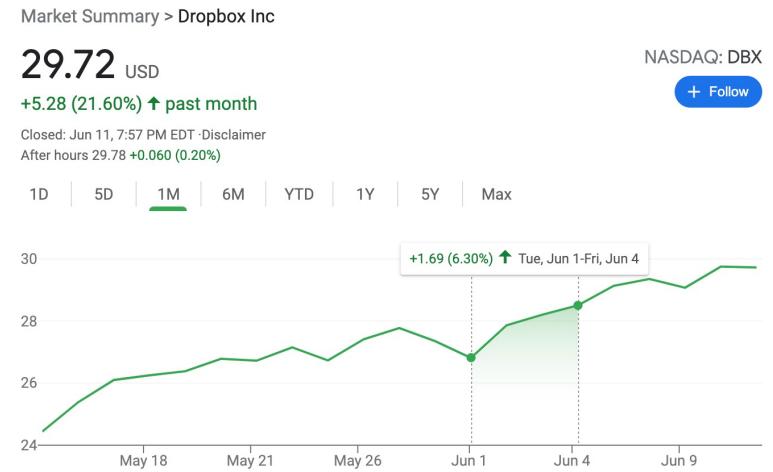


Potential Thesis II – Elliott Management's Investment

Changes in Story with Elliott Management

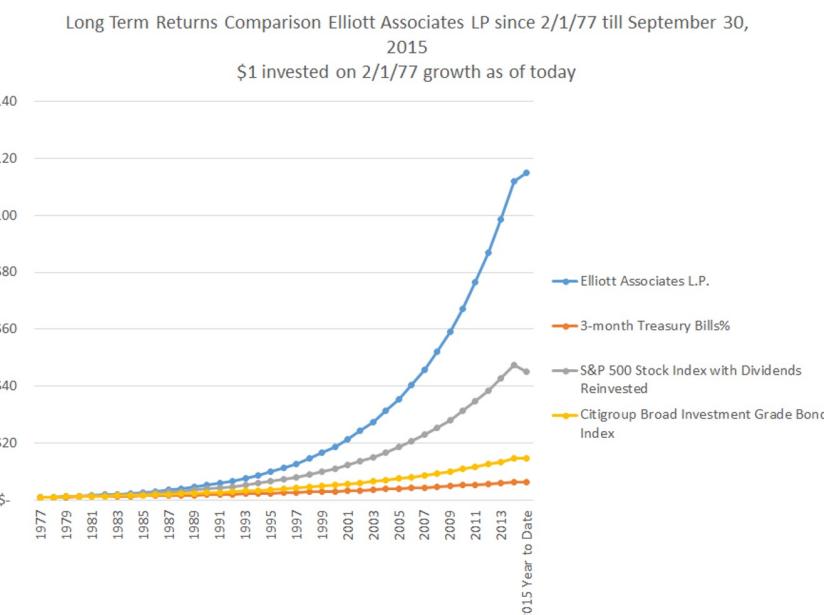
- On June 2nd, 2021, numerous articles media reported activist investor **Elliott Management** took a large stake in DBX
 - The hedge fund now owns a stake of more than **10%**, which is valued well over **\$800M**
 - This made Elliott Management the **second largest shareholder** of DBX after CEO Drew Houston himself
- DBX has seen its growth slow down significantly and may need to go through transition
 - Annual sales growth of **25.7%** in **2018** to **15.2%** in **2020**; analysts estimate DBX to grow at **11.0%** in **2021**, which is significantly slower than the industry's projected growth of **22.3%**
 - Analysts project Elliott Management could help change the story and bring long-term benefits to DBX shareholders
- “Certain members of our management have not previously worked together for an extended period of time and some do not have prior experience managing a public company, which may affect how they manage our growth” – 2020 DBX 10K

Market reacted to this news by jumping **+6.3%** on the week this announcement was made, but still has significant upside from this change →



Potential Thesis II – Elliott Management's Investment

Paul Singer, “the Most Active Activist Investor”



- As a Founder and Co-CEO of Elliott Management, Paul Singer and his fund have built a formidable reputation for buying large stakes in companies and then aggressively pushing for changes
 - “The head of Elliott Management has developed a uniquely adversarial, and immensely profitable, way of doing business.” – Sheelah Kolhatkar
- In 2020, Elliott was profitable **every month** of the year, even during the market sellout in March
 - Overall, however, the fund only returned **12.7%** on its investments, underperforming the S&P which return **16%** over 2020
 - Elliott’s assets under management grew to **\$45.2B** from roughly **\$41B** in 2020

Potential Thesis II – Elliott Management’s Investment

Elliott’s “Adversarial and Immense Profitable” Investments

- As a result of Elliott Management’s investment, DBX shareholders can expect to see **aggressive yet long-term benefiting** changes within DBX
 - After taking **9%** stake in Twitter (TWTR) in March 2020, Elliott Management demanded aggressive changes and brought tangible results, such as placing Elliott partner Jesse Cohn on Twitter’s board
 - Twitter’s share price return **-6.2%** in the 5 years before Elliott’s investment in March 2020; it has returned around **106.56%** since

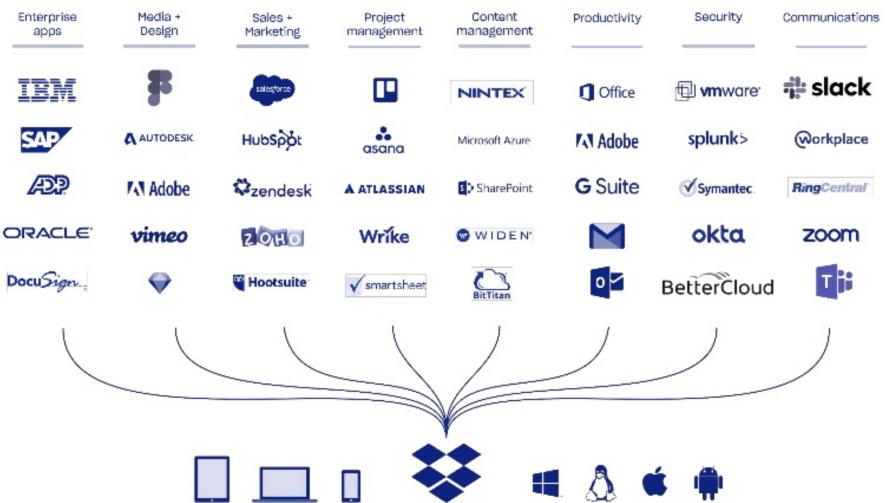


- Even though Elliott Management’s active involvement and demand for aggressive changes could bring long-term value for the shareholders, the scenery of the process may get very messy
 - Paul Singer’s notorious money-making tactic was most famously displayed during his 15-year battle with Argentinian government
 - After Argentina defaulted on its sovereign debt in 2002, Elliott Management exercised ruthless strategies, including suing governments and seizing navy ships, to get its money back and made **\$2B** from Argentina’s economic collapse

Potential Thesis III – Transition in Main Clients

Dropbox's Focus on Ensuring Business Clients

- DBX has continuously communicated to the shareholders its intention to extend its business from files storage service to a platform for businesses clients
 - “...so we decided to go all in, for all intents and purposes, **getting out of the consumer business and focused on business clients**, addressing the work use cases” – Drew Houston, CEO of DBX, in a recent podcast
 - In 2020, # paying teams increased by **11.11% (~50K teams)**, which was much faster than the overall paying user growth of **8.2%**
 - **80%** of subscribers use DBX for work
- DBX has also aggressively making deep integration partners, such as with **Slack, Zoom, Salesforce, etc.**
 - Provides additional values for existing business clients + attracts new clients
 - Makes DBX's service present and integrated to survive the competition



Potential Thesis III – Transition in Main Clients

Business Clients & Educational Institutions = Regular Income



- In addition to business clients, DBX has rapidly expanded its presence in other commercial clients, such as **colleges**
 - In 2018, the number of students, faculty, and administrators enrolled in **Dropbox Education** has risen almost **50%**, and this rapid growth trend has continued
 - Globally, **6,000+** colleges and universities are using DBX, forming **46M+** connections between college and university users
- DBX's aggressive expansion into business and commercial clients allows the company to generate more stable, predictable income source
 - Still no customer concentration: no customer accounts for **>1% of DBX's revenue**

Valuation – RPM Using ARPU Analysis

Revenue Projection Model with ARPU

Revenue Projection Model for Dropbox

Last Fiscal Date 12/31/20

Revenue Analysis

Figures in millions, except per-share data	Historical				Projected Period						
	2017 12/31/17	2018 12/31/18	2019 12/31/19	2020 12/31/20	2021 12/31/21	2022 12/31/22	2023 12/31/23	2024 12/31/24	2025 12/31/25	2026 12/31/26	2027 12/31/27
ARPU Analysis											
ARPU¹	\$ 111.91	\$ 117.64	\$ 123.07	\$ 128.50	\$ 133.89	\$ 139.22	\$ 144.48	\$ 149.68	\$ 154.79	\$ 159.81	\$ 164.73
yoY % changes	-	5.1%	4.6%	4.4%	4.2% ↗	4.0%	3.8%	3.6%	3.4%	3.2%	3.1%
Paying users (in millions)	11.00	12.70	14.31	15.48	16.68	17.91	19.17	20.45	21.74	23.05	24.36
yoY % changes	-	15.5%	12.7%	8.2%	7.8% ↗	7.4%	7.0%	6.7%	6.3%	6.0%	5.7%
ARPU Analysis Projected Revenue	1,231.0	1,494.0	1,761.1	1,989.2	2,233.5	2,493.9	2,769.6	3,060.2	3,364.9	3,682.8	4,013.1
yoY % changes	-	21.4%	17.9%	12.9%	12.3% ↗	11.7%	11.1%	10.5%	10.0%	9.4%	9.0%
% higher than the actual revenue ²	11.2%	7.4%	6.0%	3.9%	3.9% ↗	3.7%	3.5%	3.3%	3.2%	3.0%	2.9%
Revenue based on ARPU Analysis	1,106.8	1,391.7	1,661.3	1,913.9	2,150.0	2,405.1	2,675.8	2,961.6	3,261.7	3,575.4	3,901.7
Total Revenue	1,106.8	1,391.7	1,661.3	1,913.9	2,150.0	2,405.1	2,675.8	2,961.6	3,261.7	3,575.4	3,901.7
yoY % changes	-	25.7%	19.4%	15.2%	12.3%	11.9%	11.3%	10.7%	10.1%	9.6%	9.1%

- ARPU is calculated by dividing the revenue in a given period with the average paying users, which is calculated as **(# users beginning - # users end)/2**
- Revenue estimated by ARPU*users is **higher than the actual revenue** because as growing business, DBX adds more users in the later half of the period while we use the mid-year # users to calculate the revenue
 - Historically, revenue is higher by the **(yoY % of users growth/2)** percentage point

Valuation – DCF Mode

DCF Model

	Historical				Projected Period						
	2017 12/31/17	2018 12/31/18	2019 12/31/19	2020 12/31/20	2021 12/31/21	2022 12/31/22	2023 12/31/23	2024 12/31/24	2025 12/31/25	2026 12/31/26	2027 12/31/27
FCF Calculation											
EBIT	(113.7)	(494.0)	(80.5)	(277.0)	226.2	450.4	642.9	853.8	1,082.7	1,329.6	1,593.7
(-) Taxes	(23.9)	(103.7)	(16.9)	(58.2)	56.5	112.6	160.7	213.4	270.7	332.4	398.4
(+) Depreciation and amortization	181.8	166.8	173.5	159.3	158.5	141.0	138.5	144.2	154.8	168.4	183.9
(-) Capital expenditure	25.3	63.0	136.1	80.1	121.2	135.5	150.8	166.9	183.8	201.5	219.9
(-) Change in net working capital	-	503.70	(176.30)	147.70	(183.07)	(51.58)	(54.79)	(57.88)	(60.81)	(63.56)	(66.11)
Unlevered free cash flow	66.68	(790.16)	150.11	(287.33)	390.09	394.89	524.66	675.54	843.91	1,027.65	1,225.40
yoy % change	-	-1285.06%	-119.00%	-291.42%	-235.77%	1.23%	32.86%	28.76%	24.92%	21.77%	19.24%
Mid-year adjusted discount factor					0.95	0.87	0.79	0.72	0.65	0.59	0.54
Present value of FCF					371.9	342.3	413.4	483.9	549.6	608.4	659.5
Terminal value: perpetuity method											
Long-term growth rate (2-5%)	2.5%										
Free cash flow (t+1)	1,256.0										
Terminal value	16,747.2										
Mid-year adjusted terminal value	17,564.6										
Present value of terminal value	9,013.4										
Enterprise value	12,442.5										
Net debt	1,608.0										
Equity value	10,834.5										
Equity value per share	26.15										
Implied ROI (%)	-12.0%										
Terminal value: perpetuity method											
Exit EV/EBITDA multiple		12.0x									
Implied Perpetuity Growth Rate		4.1%									
EBITDA at end of projection			1,777.6								
Terminal value			21,330.9								
Present value of terminal value			10,946.1								
Enterprise value	14,375.2										
Net Debt			1,608.0								
Equity Value	12,767.2										
Equity value per share			30.82								
Implied ROI (%)			3.7%								

- As of 03/31/2021, DBX's **EV/EBITDA = 27.85x**
 - Past ratios irrelevant as 2018 is the only year DBX recorded positive EBITDA
- Analyst's estimate of DBX's **EV/EBITDA = 13.0x** (end of 2022) and Comps' median **EV/EBITDA = 24.4x**
 - **44.2x** (BOX), **23.5x** (GOOG), **20.6x** (AAPL), **24.4x** (MSFT), **26.8x** (AMZN)

Valuation – Sensitivity Table

Effect of Change in WACC on DBX

Perpetuity Growth vs. WACC

Equity/share at perpetual growth rate sensitivities						
	Equity value / share					
\$ 26.15	2.00%	2.25%	2.50%	2.75%	3.00%	
WACC	12.66%	17.50	17.81	18.15	18.49	18.86
	11.33%	20.57	21.02	21.49	21.98	22.51
	10.00%	24.79	25.45	26.15	26.90	27.71
	8.67%	30.87	31.90	33.02	34.23	35.54
	7.34%	40.22	41.98	43.92	46.08	48.48
	6.01%	56.13	59.57	63.50	68.03	73.32
	4.68%	88.43	97.07	107.70	121.08	138.44

Exit Multiple vs. WACC

Equity/share at various exit EBITDA multiples						
	Equity value / share					
\$ 30.82	8.0x	10.0x	12.0x	14.0x	16.0x	
WACC	12.66%	19.30	23.02	26.75	30.47	34.20
	11.33%	20.59	24.64	28.68	32.73	36.78
	10.00%	22.01	26.41	30.82	35.22	39.62
	8.67%	23.57	28.37	33.16	37.96	42.75
	7.34%	25.30	30.53	35.75	40.98	46.21
	6.01%	27.21	32.91	38.61	44.32	50.02
	4.68%	29.32	35.55	41.78	48.01	54.24

Return on investment at various exit EBITDA multiples						
	Return on Investment					
3.7%	8.0x	10.0x	12.0x	14.0x	16.0x	
WACC	12.66%	-35.1%	-22.5%	-10.0%	2.5%	15.1%
	11.33%	-30.7%	-17.1%	-3.5%	10.1%	23.8%
	10.00%	-25.9%	-11.1%	3.7%	18.5%	33.3%
	8.67%	-20.7%	-4.5%	11.6%	27.7%	43.9%
	7.34%	-14.9%	2.7%	20.3%	37.9%	55.5%
	6.01%	-8.5%	10.7%	29.9%	49.1%	68.3%
	4.68%	-1.4%	19.6%	40.6%	61.5%	82.5%

Risks

Competition: DBX is competing with the world's most well-established companies

- DBX's main competitors, such as **Google, Apple, and Microsoft**, are some of the world's largest, most well-established companies.
- With a smaller ecosystem compared to the companies mentioned above, DBX has to continuous innovate to remain competitive.
- Congress's newly proposed **antitrust bills** could help DBX.

Failure to attract new users, as well as retaining & upgrading paying users, could slow growth

- Paying users are not obligated to renew their subscriptions
- DBX has seen its paying users growth slow down over the past years (**15.5% in 2018 to 8.2% in 2019**) and expects this trend to continue
- DBX has to continuously add attractive features to remain competitive and retain its paying users

Privacy and security issues could permanently damage DBX's reputation & profitability

- Many teams and individuals store sensitive, private data with DBX
- Emerging and evolving cybersecurity threat, such as recently reported attack on SolarWinds, pose additional challenges for DBX
- DBX uses **256-bit AES** encryption for files at rest (compared to Google's **128-bit AES**), which provides additional security

Challenges presented by COVID-19, such as Virtual First workforce, pose uncertainties

- COVID-19 posed various uncertainties both in financial and business operations, such as delays/defaults on payment obligations and disruptions to sales operations and marketing efforts
- In October 2020, DBX announced Virtual First work model, pursuing remote work as the primary experience; limited history of this operation

Conclusion

As of 06/12/2021, DBX is being traded at a fair value of \$29.72.
**However, we recommend to buy this company below
\$22/share if the market dips in the near future.**